



**METROPOLITAN
TRANSPORTATION
COMMISSION**

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Memorandum

TO: Members of the Commission

DATE: April 18, 2007

FR: Executive Director

W. I.

RE: Contract – Financial & Compliance Audits for FY 2006-2007: PricewaterhouseCoopers, LLP

Summary

At the Administration Committee's April 11 meeting, staff recommended PricewaterhouseCoopers, LLP (PWC) to perform annual financial and compliance audits of the Metropolitan Transportation Commission (MTC), the Service Authority for Freeways and Expressways (MTC SAFE), the Bay Area Toll Authority (BATA), and the Bay Area Infrastructure Financing Authority (BAIFA) for a five year period ending June 30, 2011, with two (2) one-year extension options. Staff also recommended that PWC be retained to perform a review of business and information technology (IT) controls at the Fastrak® Center including review of data flow, hardware, data conversion, general controls, and process controls.

Based on questions raised during public comment by one of the audit firms that submitted a statement of qualifications (SOQ), Macias Gini & O'Connell, the Administration Committee deferred action on the contract award to the April 25 Commission meeting so that staff could prepare a response to the following questions:

- Is it prudent to award a new audit contract to PWC, given that they have been MTC's auditor for the past 5 years and BATA's auditor for 3 years?
- Did the proposed review of business and IT controls at the Fastrak® Center, which was not mentioned in the request for qualifications (RFQ), influence the selection of PWC as fiscal auditor?
- Does the selection of PWC to perform both financial and management audits compromise their independence?

Procurement Background

The RFQ for the fiscal auditor was issued in February 2007. Four firms responded to the invitation and all advanced to the interview process held on March 26, 2007. They were:

Caporicci & Larson	Oakland, California
Vavrinek, Trine, Day	Palo Alto, California
Macias, Gini, & O'Connell	Walnut Creek, California
PricewaterhouseCoopers	San Francisco, California

The interview panel consisted of CFO/Treasurer, Brian Mayhew, and three additional members of MTC's finance department. The evaluation criteria included experience and qualifications of the firm and assigned staff, comprehensiveness and adequacy of detailed work plan, reasonableness of task and project budget, and timetable for meeting deadlines.

After a thorough process, the interview panel unanimously recommended the selection of PricewaterhouseCoopers, LLP, to perform the Financial and Compliance audits for MTC, MTC SAFE, BATA and BAIFA for FY 2006-2007 through FY 2010-2011. PricewaterhouseCoopers was determined to be the most qualified based on a combination of the strength of the staff's qualifications and experience, the capability to provide a wide range of different types of audits, the approach to the engagement, and the labor resources available to meet the schedule.

In addition to experience in performing compliance audits in accordance with generally accepted auditing standards (GAAS) and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the RFQ asked for experience with other types of engagements, such as experience with agreed-upon procedure engagements, including reviews of project close-out audits, contract, compliance and review of business and IT controls. The panel found that the PWC audit team had a better overall capacity to provide a variety of these other services, which are required from time to time to complement the audit work provided by the financial and compliance auditor.

Review of FasTrak® Center IT and Business Controls

In February 2005, the Administration Committee approved an amendment to the prior PWC audit contract to review the IT and business controls at the Fastrak Center. This review, which was concluded at the beginning of 2007, indicated a clear need for additional follow-up to be done at the Fastrak Center, and PWC was requested to submit a proposal for the additional work. The proposal provides for a review of business and IT controls at the Fastrak® Center, including review of data flow, hardware, data conversion, general controls, and process controls. The PWC proposal was evaluated after the RFQ for the financial and compliance audit process was completed. This engagement was not a factor in the panel's evaluation of the SOQs for financial and compliance auditor.

Had PWC not been recommended to be the financial and compliance auditor under the current procurement, staff would have recommended a sole source extension of the prior contract, based on PWC's extensive experience with the FasTrak Center's IT and business controls gained during the first FasTrak Center audit review. Instead, we are recommending that this work be added to the new contract.

Administration Committee's Questions

1. Is it prudent to award a new audit contract to PWC, given that they have been MTC's auditor for the past 5 years and BATA's auditor for 3 years?

From FY99-FY01, PWC performed an audit of BATA while Macias, Gini, & O'Connell audited MTC and MTC SAFE for that same period. In fiscal year 2002, MTC elected to convert to a

single combined comprehensive audit for all the agencies - MTC, MTC SAFE, and BATA- and chose PWC to act as MTC's financial and compliance auditor for FY 2001-02 through 2005-06. At the conclusion of the fiscal year 2005-2006 audit, PWC had five years of direct experience as MTC's external audit firm and eight years of overall experience with the organization. At the end of the recommended contract, PWC's relationship with MTC would be thirteen years without the two additional option years.

In February 2007, the Administration Committee approved staff's recommendation to change MTC's long standing practice of not allowing MTC's incumbent audit firm to rebid for the next procurement. The recommendation was made based upon the limited number of large audit firms still available to perform audit work of MTC's complexity, combined with the absence of a Best Practice that supports such a restriction. This change in MTC practice allowed PWC to submit an SOQ for the current procurement.

As stated at the February Administration Committee meeting, there are no applicable audit standards that prevent an audit firm from serving for a certain length of time or from consecutive engagements. Under Sarbanes-Oxley; only certain partners are required to rotate off the engagement after five years for public clients, there is no requirement to rotate entire firms. . While there is no formal policy for government clients, PWC's internal policy is to rotate staff assignment, including partners and managers, after seven years.

2. Did the proposed review of business and IT controls at the Fastrak® Center, which was not mentioned in the request for qualifications (RFQ), influence the selection of PWC as fiscal auditor?

While the panel considered firm experience with other types of engagements, the focus of the panel's assessment of experience and qualifications was each firm's ability to perform the financial and compliance audit as well as the firm's ability to perform a range of audit type services. PWC's proposal to conduct the business and IT control review of the FasTrak® Center was not considered by the panel in reaching its recommendation of PWC as financial and compliance auditor for MTC and the other agencies.

3. Does the selection of PWC to perform financial audits and management audits compromise their independence?

AICPA and the US Government Accounting Office (GAO) standards recognize that there may be a benefit to using the same audit firm to perform additional services so long as its independence is not impaired. There are two main principles that cannot be violated: The audit firm cannot make management decisions or act as management, and the audit firm cannot audit its own work. Independence is always discussed by MTC's CFO and the engagement partner before any additional engagements are given to an audit firm. If there is an independence issue, MTC has three other audit firms under contract to handle a variety of audit services. They are KPMG LLP, Deloitte & Touche, and Caporicci & Larson. These three firms were solicited under a separate RFQ in 2004 for KPMG LLP and Caporicci & Larson and in 2005 for Deloitte & Touche.

We recommend that this Committee authorize the Executive Director or his designated representative to negotiate and enter into a five-year contract with PricewaterhouseCoopers in an initial amount not to exceed \$638,925 to provide the annual Financial and Compliance audit

services as described in the attached Summary Sheet for Fiscal Year 2006-2007. The annual Financial and Compliance audit engagement will be for five fiscal years. We will return to this Committee annually to secure funds for each annual audit, based on continuing satisfactory service. While the RFQ also permits two consecutive one-year options for a total of seven years, we believe five years is a sufficient contract term.

We also recommend that the resulting contract include a review of business and IT controls at the Fastrak® Center including review of data flow, hardware, data conversion, general controls, and process controls, at a cost of \$490,000 for a total contract amount not to exceed \$1,128,925.

A handwritten signature in black ink, consisting of a large, stylized 'S' followed by a horizontal line extending to the right.

Steve Heminger

SH:BM

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REQUEST FOR COMMITTEE APPROVAL

Summary of Proposed Consultant Contract

Work Item No.:	1152
Consultant:	PricewaterhouseCoopers LLP
Work Project Title:	MTC, MTC SAFE, and BATA Fiscal and Compliance Audits – FY 2006-2007 through FY 2010-2011
Purpose of Project:	Obtain services of an Independent Auditor
Brief Scope of Work:	<ol style="list-style-type: none">1. To perform a fiscal and compliance audits of MTC, MTC SAFE, BATA and BAIFA for FY 2006-2007 through FY 2010-2011. Auditor should render appropriate reports as required by the A-133 Audit and in accordance with the financial and compliance requirements described in the Government Auditing Standards, published by the Comptroller General of the United States and GASB 34. Audit reports to be completed for submission to the appropriate agency committees at their October 10, 2007 meetings.2. To perform review of business and IT controls at the Fastrak Center including review of data flow, hardware, data conversion, general controls, and process controls.
Project Cost Not to Exceed:	<p>FY 2006-2007: \$638,925 for annual Financial and Compliance Audits. \$490,000 for review of Fastrak Center business and IT controls.</p> <p>Total cost not to exceed \$1,128,925 (\$638,925 + \$490,000)</p> <p>Future year's funding not yet determined.</p>
Funding Source:	MTC - \$302,740 / SAFE - \$54,360/ BATA - \$717,385/ BAIFA - \$54,440
Fiscal Impact:	<p>\$738,925 Included in FY 2006-2007 Operating Budget.</p> <p>\$390,000 subject to approval of FY 2007-08 Operating Budget</p>

Motion by Committee:

That the Executive Director or his designated representative is authorized to negotiate and the Chair or Vice-Chair of this Committee is authorized to execute a contract with PricewaterhouseCoopers for fiscal audits of MTC, MTC SAFE, BATA, and BAIFA covering FY 2006-2007 through FY 2010-2011, and the Chief Financial Officer is authorized to set aside funds in the amount of \$1,128,925 for such contract, contingent upon approval of the MTC fiscal year 2006-2007 budget.

Admin. Committee:

Bill Dodd, Chair

Approved:

Date: April 25, 2007